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SUBJECT: EU CONTRIBUTION TO "SOCIAL BENEFITS OF
GLOBALIZATION" DEBATE

REF: (A) STATE 35207; (B) GENEVA 983

This is a joint USEU labor/USEU/USTR cable

SUMMARY

1. The EU Commission recently tabled a series of recommendations presented as its contribution to securing the social benefits of globalization. On the internal (EU) front, the Commission advocates full implementation of the Lisbon strategy to maintain Europe's competitiveness, calling for heavy investment in the skills of the EU labor force and for the most effective use of information technologies. On the external front, the Commission calls upon the completion of international initiatives, such as the conclusion and implementation of the Doha Development Agenda (DDA) and delivering on the Millennium Development Goals, but also looks toward the promotion of social development via unilateral market access schemes, developing assistance for trade-related adjustment costs, enhancing corporate social responsibility, and improving governance at global level. These recommendations are in response to the findings of the ILO's World Commission on the Social Dimension of Globalization (WCSDG) published in February and in preparation for the follow-up debate at the Geneva ILO Conference in June 2004. END SUMMARY.

2. In a recent communication to the Council, European Parliament and other EU bodies, the Commission reviewed the actions undertaken by the EU both within the framework of the Union and on the international scene "to ensure that economic and social progress go hand in hand" and tabled a series of recommendations for "concrete action." The paper was drafted in response to the findings of the ILO's World Commission on the Social Dimension of Globalization (WCSDG) published last February (REF A), discussed in March (REF B), and as a contribution to the follow-up debate to be held at this month's Geneva ILO Conference. Although globalization is seen as leading to the creation of higher quality and higher earning jobs in parts of the world previously heavily dependent on agriculture, the Commission notes that the benefits of globalization are "not shared equally across all countries and groups and that, without an effective system of global governance, the current model of globalization is generating unbalanced outcomes and is not likely to lead to global sustainable development." The Commission notes "a growing interest, including in the WCSDG report, in the EU approach to economic, employment and social issues" and in the EU model of sustainable development.

DEALING WITH GLOBALIZATION WITHIN THE EU

3. Overall economic gains from globalization are seen as "undoubtedly positive" for the EU. However, for trade liberalization to succeed, mechanisms must be provided to cope with adjustment costs, in particular those associated with restructuring. The paper places heavy emphasis on the integrated "Lisbon strategy" agreed by EU leaders in 2000 with the aim of turning Europe into the most competitive, knowledge-based society in the world by 2010. The strategy is described as the path to "more and better jobs" and increased social cohesion, by promoting "mutually reinforcing policies" to address the EU requirements in areas of competitiveness, employment, social progress and environmental sustainability. Not surprisingly, the paper reiterates well-known Commission calls to increase investment in the skills of the EU labor force and to make the most effective use of information technologies: "All stakeholders are required to anticipate, trigger and absorb change."

4. The Commission also suggests that:

-- EU resources from the Structural Funds be better targeted to address the challenges of globalization, such as promoting the adaptability and employability of people and enterprises and spreading out innovation and research "more evenly throughout Europe";

- The European Social Fund (ESF) be used "as a catalyst for national and regional investments to contribute to employment and life long learning, increased quality and productivity at work and to social inclusion";
 - EU countries should tackle all forms of discrimination and inequalities within the labor market and pursue education and training programs that contribute to the Lisbon strategy goals;
15. The Commission further notes that EU legislation sets minimum requirements for all Member States and companies when contemplating large-scale jobs losses or preparing other decisions likely to affect workers. Most recent texts in this regard promote upstream worker involvement, notably on strategic issues and on the foreseeable evolution of employment opportunities within companies. EU legislation also ensures minimum standards for occupational health and safety and for working conditions. Freedom of association and collective bargaining are enshrined in the EU Charter of Fundamental Rights, soon to be included in the EU Constitutional Treaty.

EU ACTION ON THE EXTERNAL FRONT

16. The Commission recalls that EU external policies have always had an important social dimension, e.g. in supporting universal access to basic social services in the LDCs. For some time now, the EU has also been promoting the effectiveness and coherence of global governance, including economic governance, through international institutions, to ensure that trade policy and bilateral relations with regions and individual countries are fully supportive of social development and to ensure that development and external cooperation contributes to maximize positive and minimize negative social consequences of globalization. Six primary objectives are put forth by the Commission in terms of external action:

- Conclusion and implementation of the Doha Development Agenda (DDA);
- Delivering on the Millennium Development Goals;
- Promoting social development via unilateral market access schemes;
- Developing assistance for trade-related adjustment costs;
- Enhancing corporate social responsibility;
- Improving governance at the global level.

17. Although regional integration can foster growth, the Commission emphasizes in its report that regional integration is only a "second best solution" compared to multilateral efforts. Specifically the Commission refers to the international efforts of the Doha Development Agenda and the Millennium Development goals. Reference is made to the World Bank, which has estimated that the gains from implementing the DDA could be between USD 270-520 billion in 2015. In order to achieve the pro-development goals of the WTO talks, the Commission calls not only for an improvement of the WTO negotiation process (i.e. increasing active participation of developing countries in the decision-making procedures), but also for increased market access, and specifically market access to reduce trade distortions for sectors and products of "special interest to developing countries." In this respect, the Commission points out that since some of the highest trade barriers exist between developing countries, the creation of new markets via "south-south" trade will be important and may ease concerns among LDCs about the impact of preference erosion.

18. The Commission report recognizes that agriculture is a particularly sensitive sector. According to the Commission, there is high dependence of these countries on a few key agricultural commodities, and the solution is wider market access. Two recent Commission communications suggesting integrated approaches to achieve sustainable practices along the commodity supply chain are mentioned as starting points for further action. The communications are the "proposal for an EU action plan on agricultural commodity chains, dependence and poverty" and the "proposal for an EU-Africa Partnership in support of cotton development," both released this past February. Further, the Commission refers to the benefits of liberalization in the services sector, and the importance of assisting developing countries in regulatory reform and the rule-making component of the DDA, as legal certainty will help create more optimal conditions for trade and investment. Regarding the Millennium Development goals, the Commission expresses agreement with the WCDG report that these goals are part of the first steps towards

establishing a global socio-economic base. The "EC will focus on delivering on its international commitments with clear targets on poverty, education, health, gender and environment. The specific objectives and actions agreed in Monterrey and Johannesburg will set the pace and direction of this work."

19. The Commission also promotes unilateral market access schemes as mechanisms to secure social development. The Everything But Arms proposal is cited as an example, although the Commission report focuses on the EU's Generalized System of Preferences (GSP). The GSP contains an incentive system in which compliance with rules to combat drug production and trafficking and core labor, environmental, and social standards, qualifies the beneficiary country with additional trade preferences. The Commission refers to the upcoming reform of the present EU GSP scheme, which will focus on "maximizing benefits for recipients and promoting the full application of core labor standards in beneficiary countries."

10. Trade-related assistance is highlighted in the Commission report as a priority in order to help countries manage economic and social adjustment due to trade liberalization and policy changes. Trade reforms (such as adjustment of quotas, tariffs for example) often involve transitory costs for certain groups of the population. The Commission calls upon the international community to address the issue of adjustment costs more systematically in order to minimize negative social impacts. The IMF's trade integration mechanism to support countries under-going balance of payment difficulties is cited as an example. The Commission states that it aims to progressively develop support for trade-related adjustment as part of its development strategy. The support would address three levels:

- Domestic, institutional capacity building to support policy reforms;
- Programs to ensure a more equitable spread of gains and smooth transfer of resources from protected sectors;
- Programs for productive capacity development to ensure that opportunities of increased market access can be utilized to the full potential.

Responsibility of countries themselves is not undermined. Although it commits itself to further develop support for trade-related adjustment mechanisms, the Commission also argues (just like the WCSDG report) that much of the responsibility for social development rests with the individual countries. It is the responsibility of each country to ensure that domestic policies respect the rule of law, human rights and transparent and accountable governance.

11. According to the Commission, corporate social responsibility (CSR) is an approach "which can help trade and investment work for sustainable development." Companies are increasingly aware that responsible business conduct can strengthen their competitiveness. In this respect, the private sector can be a powerful and complementary partner with governments to attain social goals. In order to have CSR policies be seen more than a simple "PR exercise," the Commission calls for the policies to be developed transparently and in "full consultation with the social partners and other relevant stakeholders." Best practices are to be further identified and the Commission actively supports the application of the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, which it will try to incorporate more into future bilateral agreements.

12. Lastly, on the external front, the Commission calls for a more "coherent and holistic approach" to questions relating to the social dimension of globalization - whether they be in the WTO, the International Financial Institutions, the International Labor Organization, or the United Nations. According to the Commission, all these organizations must work together to towards the strategic goal of sustainable development. The Commission report focuses specifically on the U.N., calling for the EU to speak more consistently with "one voice in the whole range of UN fora addressing social and economic issues."

COMMENT

13. This paper reflects the preoccupation of several Commissioners and other senior Commission officials regarding the volatile public debate -- internally within the EU, and internationally -- about the costs and benefits of globalization. The document clearly sets out to portray existing EU policies and programs (e.g. Everything But Arms) as standards to be emulated by other developed economies,

but also points to areas where the Commission would like to extend EU activity, including with respect to corporate social responsibility and trade-related technical assistance. The references by the Commission to "the EU's economic and social model" raise questions about the existence of such a unified "model," particularly in a newly expanded union of 25 member states. USEU will continue to track Council reactions to the Commission's strategy paper and eventual efforts to translate certain concepts into policies or new programs. One area of particular interest may be the concepts related to the design, implementation and evaluation of policies intended to balance economic and social objectives related to globalization.

13. For further details, see http://europa.eu.int/comm./trade/issues/global/index_en.htm

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